

***Seattle Public Utilities—
Solid Waste Fund
(An Enterprise Fund of the
City of Seattle)***

*Financial Statements and Additional Information
for the Years Ended December 31, 2002 and 2001,
and Independent Auditors' Report*

SEATTLE PUBLIC UTILITIES—SOLID WASTE FUND

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INDEPENDENT AUDITORS' REPORT

Director
Seattle Public Utilities—Solid Waste Fund
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities—Solid Waste Fund (the “Fund”) as of December 31, 2002 and 2001, and the related statements of revenues, expenses, and changes in net assets (accumulated deficit) and of cash flows for the years then ended. These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in 2002 the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The accompanying management’s discussion and analysis on pages 2 and 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Deloitte & Touche LLP".

April 2, 2003

SEATTLE PUBLIC UTILITIES—SOLID WASTE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2002

The financial statements contained in this report document the financial performance of the Solid Waste Fund of Seattle Public Utilities. The revenues, expenses, assets, and liabilities of Seattle's solid waste system are recorded in the Solid Waste Fund. The financial situation of other aspects of Seattle city government, including other utility services and general government operations, are reported elsewhere.

This section of the report summarizes the financial situation of the Solid Waste Fund, especially with respect to changes since 2001.

SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The following statements of revenues, expenses, and changes in net assets present the annual surplus or deficiency of revenues over expenses (the change in net assets):

	2002	2001
Operating revenues	\$ 112,089,945	\$ 105,510,879
Operating expenses	<u>(110,025,694)</u>	<u>(103,594,419)</u>
Net operating income	2,064,251	1,916,460
Other expenses	(1,854,158)	(1,648,976)
Capital and operating fees, contributions, and grants	<u>353,795</u>	<u>298,240</u>
Change in net assets	<u>\$ 563,888</u>	<u>\$ 565,724</u>

In 2002, total operating revenues were \$6.6 million higher than in 2001. The most significant contributor to this change was the City of Seattle's (the "City") commercial garbage collection contracts, which were implemented in April 2001. (Prior to April 2001 the City was not associated with the collection of the City's commercial waste.) These contracts were in operation for 12 months in 2002 and only 9 months in 2001. As a result, commercial services revenue was \$8.5 million higher in 2002 than in 2001, and Commercial Disposal Revenue (revenue from a fee charged for the disposal of commercial and other waste prior to the contracts) was down \$3.8 million. An increase of \$1.9 million in residential extra garbage charges reported by our contractors and charged to the customers also contributed to the increase in operating revenues. Extra garbage is garbage collected from residential customers that exceeds the amount allowed under the customer's regular subscription level. Residential Garbage Collection contracts implemented in April 2000 included a penalty and reward system for the contractors to encourage better reporting of extra garbage.

In 2002, total operating expenses increased by \$6.4 million in comparison with 2001. Of this increase, \$3.8 million is attributable to the additional three months of commercial garbage collection in 2002 and the associated payments to the contractors for that service. The Solid Waste Fund paid \$1.6 million more in city and state taxes in 2002 as a result of the increase in revenue. Depreciation and amortization expenses also increased by \$0.5 million because of the implementation of the City's new utility billing system.

SUMMARY BALANCE SHEETS

The following summary balance sheets present the assets of the solid waste system and show the mix of liabilities and net assets used to acquire these assets:

	2002	2001
Assets:		
Current assets	\$ 14,231,174	\$ 14,814,178
Noncurrent assets:		
Utility plant—net	16,499,880	15,065,926
Other	<u>46,868,303</u>	<u>51,266,023</u>
Total assets	77,599,357	81,146,127
Liabilities:		
Current liabilities	19,895,320	16,595,812
Noncurrent liabilities:		
Long-term debt	28,540,052	32,026,620
Other	<u>28,586,365</u>	<u>32,509,963</u>
Total liabilities	<u>77,021,737</u>	<u>81,132,395</u>
Net assets:		
Invested in capital—net of related debt	2,727,505	1,294,383
Unrestricted	<u>(2,149,885)</u>	<u>(1,280,651)</u>
Total net assets	<u>\$ 577,620</u>	<u>\$ 13,732</u>

Assets—Current assets declined by approximately \$0.6 million, mainly due to reductions in accounts receivable. Utility plant increased by \$1.4 million as a result of heavy equipment purchases and capital spending. Other noncurrent assets decreased by approximately \$4.4 million because of a decline in deferred charges and the spending of construction fund cash (bond proceeds).

Liabilities—The \$3.3 million increase in current liabilities was mostly due to the increase of accounts payable. Scheduled principal payments reduced long-term debt by approximately \$3.3 million. No new debt was incurred in 2002; however, the Solid Waste Fund expects to issue new debt in 2003 to help finance the rehabilitation and redesign of its garbage transfer system. In addition, the Solid Waste Fund paid off an advance from the City's Cumulative Reserve Fund, reducing other liabilities by \$3.0 million.

Net Assets—Net assets are the portion of the assets of the Solid Waste Fund no longer financed with revenue bonds or other liabilities. Net assets increased by \$0.6 million from 2001 to 2002.

SEATTLE PUBLIC UTILITIES—SOLID WASTE FUND

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

ASSETS	2002	2001
CURRENT ASSETS:		
Cash and equity in pooled investments	\$ 986,115	\$ 504,372
Accounts receivable, net of allowances for doubtful accounts of \$176,189 and \$55,360	11,856,724	12,595,949
Unbilled revenues	373,141	325,245
Due from other City funds	385,006	323,699
Due from other governments	603,983	1,040,671
Other	26,205	24,242
	<u>14,231,174</u>	<u>14,814,178</u>
RESTRICTED ASSETS—Construction Fund—cash and equity in pooled investments		919,903
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs—net	279,704	316,363
Deferred landfill closure and postclosure costs—net	39,494,539	42,153,274
Other deferred charges	7,094,060	7,876,483
	<u>46,868,303</u>	<u>50,346,120</u>
UTILITY PLANT—At original cost:		
Plant in service—excluding land	22,612,807	22,462,717
Less accumulated depreciation	(14,539,434)	(14,310,599)
	<u>8,073,373</u>	<u>8,152,118</u>
Construction in progress	4,461,890	2,952,205
Land and land rights	1,590,711	1,587,697
Nonoperating property—net of accumulated depreciation	2,373,906	2,373,906
	<u>16,499,880</u>	<u>15,065,926</u>
TOTAL	<u>\$ 77,599,357</u>	<u>\$ 81,146,127</u>

See notes to financial statements.

LIABILITIES	2002	2001
CURRENT LIABILITIES:		
Accounts payable	\$ 9,761,690	\$ 6,738,058
Accrued payroll and payroll taxes payable	467,162	483,897
Accrued taxes payable	391,099	490,113
Compensated absences payable	154,144	106,990
Due to other City funds	1,663,503	1,238,186
Due to other governments	91,134	
Claims payable	121,471	151,370
Revenue bonds due within one year	3,585,000	3,405,000
Accrued interest payable	668,180	740,082
Accrued landfill closure and postclosure costs	1,090,320	1,375,320
Deferred credits and other	<u>1,901,617</u>	<u>1,866,796</u>
	19,895,320	16,595,812
REVENUE BONDS:		
Revenue bonds—due serially	32,815,000	36,220,000
Less revenue bonds due within one year	(3,585,000)	(3,405,000)
Plus bond discount and premium—net	666,895	774,567
Less deferred charges on advance refunding	<u>(1,356,843)</u>	<u>(1,562,947)</u>
	28,540,052	32,026,620
NONCURRENT AND OTHER LIABILITIES:		
Accrued landfill postclosure costs—net of current portion	27,425,305	28,230,625
Compensated absences payable	857,191	930,067
Claims payable	285,084	348,457
Retainage payable	18,785	
Advances from other funds	<u></u>	<u>3,000,814</u>
	<u>28,586,365</u>	<u>32,509,963</u>
Total liabilities	77,021,737	81,132,395
NET ASSETS:		
Invested in capital assets—net of related debt	2,727,505	1,294,383
Unrestricted accumulated deficit	<u>(2,149,885)</u>	<u>(1,280,651)</u>
Total net assets	<u>577,620</u>	<u>13,732</u>
TOTAL	<u><u>\$ 77,599,357</u></u>	<u><u>\$ 81,146,127</u></u>

SEATTLE PUBLIC UTILITIES—SOLID WASTE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (ACCUMULATED DEFICIT) YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
OPERATING REVENUES:		
Direct service	\$ 53,449,145	\$ 51,551,599
Commercial service	36,721,224	28,226,143
Other	<u>21,919,576</u>	<u>25,733,137</u>
Total operating revenues	112,089,945	105,510,879
OPERATING EXPENSES:		
Solid waste collection	58,860,873	55,024,617
Resource management	7,128,923	7,060,961
Field operations	7,276,559	6,550,424
Engineering services	276,068	288,458
Customer services	5,819,683	5,767,357
General and administrative	6,627,305	6,697,540
City business and occupation taxes	14,394,761	13,209,875
Other taxes	4,341,031	3,892,675
Depreciation and amortization	2,529,411	2,072,856
Amortization of landfill and postclosure costs	<u>2,771,080</u>	<u>3,029,656</u>
Total operating expenses	<u>110,025,694</u>	<u>103,594,419</u>
NET OPERATING INCOME	2,064,251	1,916,460
OTHER INCOME (EXPENSES):		
Investment and interest income	63,436	350,678
Interest expense	(1,825,824)	(1,864,563)
Amortization of debt expenses	(135,091)	(135,091)
Gain on sale of capital assets	<u>43,321</u>	<u></u>
Total other expenses	(1,854,158)	(1,648,976)
OPERATING FEES, CONTRIBUTIONS, AND GRANTS	<u>353,795</u>	<u>298,240</u>
CHANGE IN NET ASSETS	563,888	565,724
NET ASSETS (ACCUMULATED DEFICIT):		
Beginning of year	<u>13,732</u>	<u>(551,992)</u>
End of year	<u>\$ 577,620</u>	<u>\$ 13,732</u>

See notes to financial statements.

SEATTLE PUBLIC UTILITIES—SOLID WASTE FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 113,156,654	\$ 99,851,549
Cash paid to suppliers and employees	(83,557,471)	(83,124,331)
Cash paid for taxes	<u>(18,814,565)</u>	<u>(16,365,979)</u>
Net cash provided by operating activities	10,784,618	361,239
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—Operating grants received	353,795	298,240
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on revenue bonds	(3,405,000)	(3,249,304)
Capital expenditures and deferred charges	(3,360,497)	(2,804,383)
Proceeds from sale of fixed assets	71,000	
Interest paid	(1,944,698)	(2,107,561)
Advances from other funds	<u>(3,000,814)</u>	<u>3,000,814</u>
Net cash used by capital and related financing activities	(11,640,009)	(5,160,434)
CASH FLOWS FROM INVESTING ACTIVITIES— Interest received on investments	<u>63,436</u>	<u>350,678</u>
NET DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	(438,160)	(4,150,277)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>1,424,275</u>	<u>5,574,552</u>
End of year	<u>\$ 986,115</u>	<u>\$ 1,424,275</u>

(Continued)

SEATTLE PUBLIC UTILITIES—SOLID WASTE FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 2,064,251	\$ 1,916,460
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Amortization of landfill and postclosure costs	2,771,080	3,029,656
Depreciation and amortization	2,529,411	2,072,856
Change in estimate of risk financing liability—net	(93,272)	69,242
Changes in operating assets and liabilities:		
Unbilled revenues	(47,896)	725,285
Accounts receivable	739,225	(6,750,125)
Due from other City funds	(61,307)	395,641
Prepayments and other current assets	(1,963)	(7,926)
Due from other governments	436,688	(30,131)
Accounts payable	2,945,113	1,913,261
Vendor deposits payable		(29,627)
Retainage payable	18,785	
Accrued payroll and payroll taxes payable	(16,735)	129,197
Compensated absences payable	(25,722)	(108,291)
Due to other City funds	425,317	(1,707,159)
Accrued landfill closure and postclosure costs	(925,298)	(1,214,088)
Deferred credits and other liabilities	26,941	(43,012)
Total adjustments	8,720,367	(1,555,221)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,784,618</u>	<u>\$ 361,239</u>

See notes to financial statements.

(Concluded)

SEATTLE PUBLIC UTILITIES—SOLID WASTE FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2002 AND 2001

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations—The City of Seattle, Seattle Public Utilities—Solid Waste Fund (the “Fund”) is a public utility enterprise fund of the City of Seattle (the “City”). On January 1, 1997, the City created Seattle Public Utilities (“SPU”), which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City’s General Fund. Solid waste collection and disposal services provided to other City departments and agencies are at rates prescribed by City ordinances.

SPU provides customer service for, and the cost is shared among, SPU’s three utility funds (Water, Drainage and Wastewater, and Solid Waste) and Seattle City Light (“SCL”). In addition, SPU also performed utility billing for each of these entities until early 2001, when SCL implemented its new billing system, Combined Customer Service System (“CCSS”), and began performing the utility billing service for each of the entities. Instead of billing each other for the two operating services, SPU and SCL made an arrangement to exchange the services. The Fund provided services to SCL with a cost of \$1,003,201 in 2002 and \$961,130 in 2001. In return, the Fund received services from SCL with a cost of \$965,734 in 2002 and \$751,080 in 2001.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor’s Office, Division of Municipal Corporations and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board on or before November 30, 1989, except when they conflict with the GASB.

Basis of Accounting—The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund’s operations are included on the balance sheets. The operating statements present increases (revenues) and decreases (expenses) in total net assets.

Revenues—Revenues are recorded through cycle billings rendered to customers monthly or bimonthly. Amounts billed but not earned at year end are recorded as unearned revenues. The Fund accrues and records unbilled collection service revenues in the financial statements for services provided from the date of the last billing to year end.

Additionally, the Fund records certain other revenues related to tonnage fees that are subject to audit and adjustment by the City. Any disallowed revenue, including amounts already received, may constitute a

liability of the Fund. The amount, if any, of revenue that may be disallowed cannot be determined at this time, although the Fund expects such amounts, if any, to be insignificant.

Utility Plant—Costs of additions to utility plant are capitalized. The Fund’s policy is to capitalize assets with a cost of \$5,000 or more. Costs include direct materials, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest. The cost of current repairs and maintenance is charged to expense, while the cost of improvements is capitalized.

Depreciation—Plant in service is depreciated on the straight-line method over estimated useful lives as follows:

Buildings	50 years
Transfer stations, scalehouses, and related improvements	5 to 33 years
Machinery and equipment	3 to 20 years

It is the Fund’s policy to begin depreciation in the year following acquisition and to record a full year’s depreciation in the year of disposition.

Property Held for Sale—In 1990, the Fund purchased 350 acres of land surrounding the Kent-Highlands landfill. A portion of this land will become part of the landfill area, with the excess held for sale. This property is carried at the lower of cost or fair value as nonoperating property on the balance sheets.

Deferred Charges—The Fund capitalizes all direct and incremental costs and the related overhead incurred in connection with the development of significant information system projects that are to be used internally. Such costs are shown as other deferred charges on the balance sheets and are amortized over the project’s estimated useful life, ranging from six to eight years. In 2001, the Fund put a computer system, the Consolidated Customer Service System (CCSS), in service. Deferred CCSS costs of \$6,176,930 are being amortized for eight years beginning in 2002.

Compensated Absences—Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

Taxes—The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenues, net of certain credits. The Fund also is charged two taxes by the City based on solid waste tonnages collected and transferred in the City for disposal. In addition, the Fund pays several state business taxes at various rates.

Net Assets—There are three components of net assets: invested in capital—net of related debt; restricted net assets; and unrestricted net assets. Invested in capital assets includes utility plant, deferred conservation costs, other deferred charges that are capital in nature, and net unamortized bond issuance costs. The Fund had no restricted assets as of December 31, 2002 and 2001.

Other Revenues and Expenses—This includes the nonoperating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a

recurring nature. Major items are investment and interest income, interest expense and amortization of debt expenses.

Arbitrage Rebate Requirement—The Fund is subject to the Internal Revenue Service Code, Section 148(f), related to its tax-exempt revenue bonds. The Internal Revenue Service Code requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be rebated to the Internal Revenue Service. As such, the Fund would record such rebate as a liability.

Accounting Changes—In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 34, as amended, commonly referred to as the new reporting model, retained much of the old reporting and disclosure requirements under the prior reporting model with certain modifications and newly added information. Applicable portions of this statement were implemented by the Fund for the year ended December 31, 2002, and the most significant effects on the Fund’s annual financial statements were the addition of management’s discussion and analysis as required supplementary information and reclassifications of net asset amounts.

The Fund adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, in 2001. The cumulative effect of the adoption was made in 2002 in conjunction with the implementation of GASB Statement No. 34 by classifying as unrestricted net assets the amounts previously reported as contributions in aid of construction.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record landfill closure and postclosure costs, unbilled collection services, allowance for doubtful accounts, accrued sick leave, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Reclassifications—Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

2. CASH AND EQUITY IN POOLED INVESTMENTS

The City’s Department of Finance invests all temporary cash surpluses for City departments. This department may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers’ acceptances trading in the secondary market, and repurchase or reverse-repurchase agreements with primary dealers who use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City’s policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City’s name. The Fund had no investments at December 31, 2002 and 2001.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (“PDPC”) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

The City considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents. The cash pool operates like a demand deposit account in that all agencies, including the City, can deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments plus the cash held in escrow for vendors. Securities with maturities exceeding three months at the time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

The Fund had a \$3 million temporary loan from the City's Cumulative Reserve Sub-Fund as of December 31, 2001, to cover the negative cash balance. The loan was repaid with interest (interest rate of 4.95%) on January 2, 2002.

3. UTILITY PLANT

Utility plant consists of the following at December 31:

	2001	Additions and Transfers In	Retirements and Transfers Out	2002
Buildings	\$ 10,880,281	\$ —	\$ —	\$ 10,880,281
Machinery and equipment	11,582,436	1,229,531	(1,190,267)	11,621,700
Contingency communications	<u> </u>	<u>110,826</u>	<u> </u>	<u>110,826</u>
Total plant in service— excluding land	22,462,717	1,340,357	(1,190,267)	22,612,807
Less accumulated depreciation	<u>(14,310,599)</u>	<u>(228,835)</u>	<u> </u>	<u>(14,539,434)</u>
	8,152,118	1,111,522	(1,190,267)	8,073,373
Construction in progress	2,952,205	3,201,526	(1,691,841)	4,461,890
Land and land rights	1,587,697	3,014		1,590,711
Nonoperating property—net of accumulated depreciation	<u>2,373,906</u>	<u> </u>	<u> </u>	<u>2,373,906</u>
Utility plant—net	<u>\$ 15,065,926</u>	<u>\$ 4,316,062</u>	<u>\$ (2,882,108)</u>	<u>\$ 16,499,880</u>

During 2002 and 2001, the Fund capitalized interest costs relating to construction of \$125,489 and \$177,615, respectively.

4. REVENUE AND REFUNDING BONDS

Revenue bonds consist of the following at December 31:

	2002			2001		
	Short-Term	Long-Term	Total	Short-Term	Long-Term	Total
1999B Solid Waste Revenue Bonds, 4.75% to 5.90%, due through 2019, insured by a third-party insurer	\$ 195,000	\$ 4,775,000	\$ 4,970,000	\$ 185,000	\$ 4,970,000	\$ 5,155,000
1999A Solid Waste Revenue Refunding Bonds, 4.75% to 5.50%, due through 2009, insured by a third-party insurer	<u>3,390,000</u>	<u>24,455,000</u>	<u>27,845,000</u>	<u>3,220,000</u>	<u>27,845,000</u>	<u>31,065,000</u>
	<u>\$3,585,000</u>	<u>\$29,230,000</u>	<u>\$32,815,000</u>	<u>\$3,405,000</u>	<u>\$32,815,000</u>	<u>\$36,220,000</u>

In prior years, the Fund defeased certain bonds by placing investments acquired from the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the Fund's financial statements. The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds using the effective interest method.

Proceeds of the issuance are being used to finance certain capital improvements to the Fund.

Minimum debt service requirements on revenue and refunding bonds are as follows:

Year Ending December 31	Principal	Interest	Total
2003	\$ 3,585,000	\$ 1,766,861	\$ 5,351,861
2004	3,770,000	1,579,623	5,349,623
2005	3,965,000	1,382,198	5,347,198
2006	4,170,000	1,174,560	5,344,560
2007	4,390,000	956,185	5,346,185
2008 – 2012	10,360,000	1,716,705	12,076,705
2013 – 2017	1,735,000	559,060	2,294,060
2018 – 2022	<u>840,000</u>	<u>74,930</u>	<u>914,930</u>
	<u>\$ 32,815,000</u>	<u>\$ 9,210,122</u>	<u>\$ 42,025,122</u>

The revenue and refunding bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 1.25 times annual debt service. Net revenue available for debt service, as defined by the bond covenants, was 4.07 times annual debt service for 2002. Net revenue available for debt service for the year ended December 31, 2002, is determined as follows:

Change in net assets	\$ 563,888
Add:	
City occupation tax	14,394,761
Depreciation and amortization	2,529,411
Amortization of landfill and postclosure costs	2,771,080
Interest on revenue bonds	1,872,795
Amortization of debt expenses	135,091
Noncash investment fair value adjustment	30,929
Claims and damages claimed but not paid	<u>(93,272)</u>
	22,204,683
Less:	
Capitalized interest	<u>(125,489)</u>
Adjusted net revenue available for debt service	<u>\$22,079,194</u>
Debt service requirement (cash basis)	<u>\$ 5,428,216</u>
Coverage	4.07

5. RETIREMENT PLANS

Pension Costs—All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the "System"), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances.

City employees are required to contribute 8.03% of their annual base salaries to the System. The City's contribution rate was 8.03% as of January 1, 2002 and 2001. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2002, 2001, and 2000, were \$867,556, \$798,234, and \$766,183, respectively. The Fund's contribution in 2002 represents its full liability to the System.

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington, 98104; telephone: (206) 386-1292.

Employer contributions for the City are as follows (dollars in millions):

Year Ended December 31	City Required Contribution	City Actual Contribution	Percentage Contributed
2000	\$ 30.8	\$ 30.8	100 %
2001	32.5	32.5	100
2002	35.2	35.2	100

Actuarial data and assumptions:

Valuation date	January 1, 2002
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	-0- years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00%
Projected general wage inflation	4.50%
Postretirement benefit increases	.67%

Schedules of funding progress (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL)— Entry Age (1) (b)	Unfunded AAL (UAAL) (2) (b-a)	Funded Ratio (a/b)	Covered Payroll (3) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/ c)
1/1/2000	\$ 1,582.7	\$ 1,403.1	\$ (179.6)	112.8 %	\$ 370.4	(48.5)%
1/1/2001	1,493.1	1,490.3	(2.8)	100.2	383.7	(0.7)
1/1/2002	1,383.7	1,581.4	197.7	87.5	405.1	48.8

- (1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (2) Actuarial accrued liabilities less actuarial value of assets.
- (3) Covered payroll includes compensation paid to all active employees on which contributions are calculated.

Deferred Compensation—The City offers its employees a deferred compensation plan (the “Plan”), created in accordance with the Internal Revenue Code (“IRC”) Section 457. The Plan, available to all City employees, permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseeable emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making selections, participants accept and assume all risks inherent in the Plan and its administration.

6. RISK FINANCING LIABILITIES

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2002 and 2001, liabilities for workers' compensation claims as well as other claims are discounted over a 15-year period at the City's rate of return on investments, 4.36% and 5.34%, respectively. Claims expected to be paid within one year were \$121,471 and \$151,370 at December 31, 2002 and 2001, respectively. The schedules below present the changes in the liability for workers' compensation claims as well as other claims (risk financing liabilities) as of December 31:

	2002	2001
Beginning liability	\$ 499,827	\$ 430,585
Payments	(37,253)	(183,147)
Incurred claims and changes in estimates	<u>(56,019)</u>	<u>252,389</u>
Ending liability	<u>\$ 406,555</u>	<u>\$ 499,827</u>

7. CONTRACTUAL OBLIGATIONS

The City contracts with private companies for the collection of residential garbage, yard waste, and recycling. The contracts include certain additional costs related to bulky item collection and backyard service. New residential collection contracts with two private companies were implemented in April 2000 and end March 2007. Total payments under the current contracts during 2002 and 2001 were \$21,108,533 and \$21,779,978, respectively.

In 1990, the City signed a 38-year contract with Washington Waste Systems ("WWS") for the disposal of nonrecyclable City waste, including the City's commercial waste collected by two state-franchised haulers. In 1996, the City renegotiated this contract to extend the first date at which it can choose to unilaterally terminate the contract from March 31, 2000, to March 31, 2006. In exchange, WWS agreed to reduce the contract price from approximately \$45/ton in 1996 to \$41.57/ton beginning April 15, 1997, and \$43.70/ton beginning April 2002. In addition, WWS agreed to reduce the price escalator in the contract from 90% of the Seattle-Tacoma CPI to 80%, effective April 15, 1998. The Fund paid WWS \$19,081,417 and \$21,719,562 under this contract in 2002 and 2001, respectively.

For several years, the City negotiated with the state-franchised haulers that have collected commercial waste in the City to bring them under contract with the City. The negotiations were successful, and as of April 1, 2001, commercial garbage has been collected under these new contracts. Payments under these contracts totalled \$20,716,037 and \$11,451,744 in 2002 and 2001, respectively. The contracts end March 31, 2008, but the City retains an option to extend the contracts to March 31, 2009, or March 31, 2010. As part of these commercial collection contracts, the City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. and changes to the disposal contract. The first

opt-out date on the disposal contract was extended from March 31, 2006, to March 31, 2009, in exchange for price reductions of \$1.50/ton in 2003, an additional \$1.50/ton in 2005, and an additional \$1.50/ton in 2007.

8. LANDFILL CLOSURE AND POSTCLOSURE CARE

At December 31, 2002 and 2001, accrued landfill and postclosure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as a deferred cost in the accompanying financial statements. These costs are being amortized as they are recovered from rate payers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, or changes in regulations.

In prior years, the Fund delivered its refuse to two leased disposal sites: the Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste in the Midway site in 1983 and in the Kent-Highlands site in 1986.

Subsequent to their closing, the Kent-Highlands and Midway landfills were declared Superfund Sites by the federal government. In the same time period, nearby landowners, residents, and the federal and state governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to the Kent-Highlands and Midway landfills. Any future changes in the accrued landfill liability will be reflected in Fund rates.

In 1996, the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit, the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation, and Liability Act) are liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately \$2.23 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered \$6.4 million. The City does not anticipate any further legal actions relating to either landfill.

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